ELECTRIC DEREGULATION
THE WRONG CHOICE FOR MICHIGAN

A presentation to:
Michigan House Committee on Energy and Technology

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March 25, 2014

MICHIGAN
JOBS & ENERGY
COALITION

Electric Deregulation from 1992 to 2014

http://www.eia.gov/electricity/reports.cfm

- **Electric deregulation was first attempted in early 1992 with a pilot program in New Hampshire (followed soon by Arizona, California, Massachusetts, Pennsylvania and Rhode Island).**

- **At its peak 22 states had enacted some form of electric deregulation.**

- **No state has passed electric deregulation in 14 years. The last being Michigan in June 2000 (PA 141).**

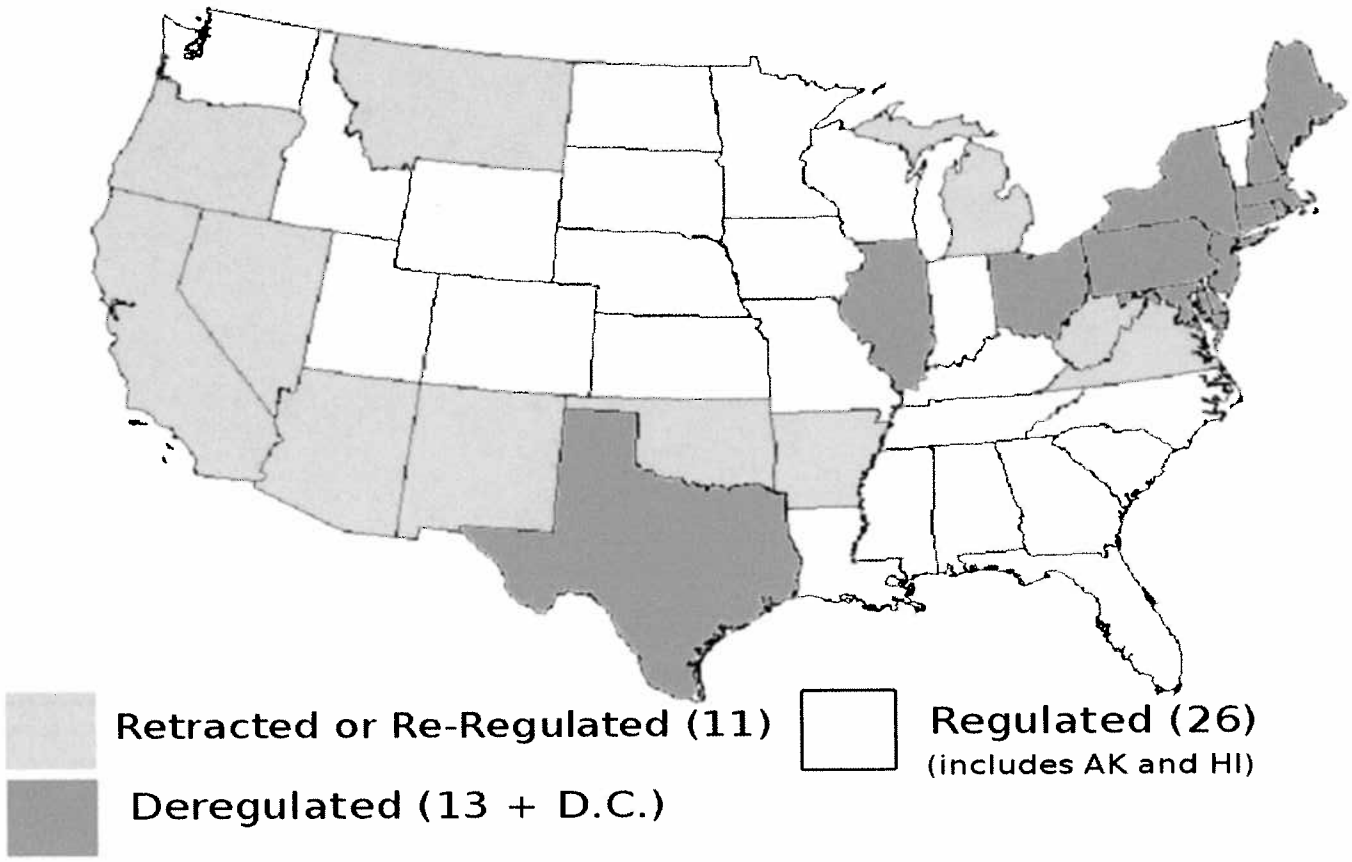
- **Eleven states have retracted from implementing deregulation or have re-regulated since 2000 (including Michigan): Arkansas, Arizona, California, Michigan, Montana, Nevada, New Mexico, Oklahoma, Oregon, Virginia and West Virginia.**

Status of Electric Deregulation by State

http://www.eia.gov/electricity/policies/restructuring/restructure_elect.html

(On the EIA map you can click on a State for the history of deregulation in that state)

Map below is an updated version reflecting changes since 2010



RATES

EIA - Table 5.6.A – Average Retail Price of Electricity by State

http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a

Misleading claim: "Average price increases in the 14 customer choice states have increased far less than in non-choice states." – *Dr. Phil O'Connor*

FACT: The average increase in prices have been consistent across the board regardless of whether the state was regulated or deregulated – between 3 and 4 cents per kilowatt hour (kWh). However, regulated states have had and continue to have actual rates far below deregulated states which makes the use of a percentage increase misleading.

Misleading claim: "Michigan consumers paid $3.35 billion in excess electric prices in 2013." – *Rep. Mike Shirkey*

FACT: This claim was based on three false assumptions : 1.) Illinois represents what has occurred in electric dereg states; 2.) the rates in Illinois are the result of deregulation; and 3.) that passage of HB 5184 would lower Michigan rates by 3.27 cents - which cannot be supported by any economic analysis.

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- **The national average rate for electricity is 10.13 cents per kWh**
- **Michigan currently ranks 13th with an average rate of 11.05 cents p/kWh**
- **The following are the top 10 states with the highest rates - states in green are deregulated (includes Washington DC – excludes Hawaii & Alaska) :**

1.	Rhode Island	17.41
2.	Connecticut	16.82
3.	New York	16.51
4.	New Hampshire	15.49
5.	Massachusetts	14.71
6.	New Jersey	14.53
7.	Vermont (regulated)	14.47
8.	California (suspended)	14.08
9.	Maine	13.79
10.	Washington DC	12.85
Average		15.07 cents p/kWh

The other dereg states (w/ ranking)

11. Maryland	12.35
12. Delaware	11.65
14. Pennsylvania	10.72
23. Ohio	9.27
30. Texas	8.79
34. Illinois	8.27
Avg. all dereg states	13.08 p/kWh

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The top 10 states with the lowest rates – states in blue are regulated:

1.	Arkansas (suspended)	7.25
2.	Oklahoma	7.29
3.	Washington	7.33
4.	Louisiana	7.51
5.	Wyoming	7.52
6.	Idaho	7.52
7.	North Dakota	7.60
8.	Utah	7.73
9.	West Virginia	7.83
10.	Iowa	7.85
Average		7.54 cents p/kWh

The avg rate for all regulated states:

8.92 cents per kWh

The weighted annual averages between regulated and deregulated states has not changed in 22 years (1992 through 2014) (DOE/EIA – Energy Monthly Report)

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Misleading claim: "Electric deregulation is the only explanation for the rates in Illinois." - *Dr. Phil O'Connor*

FACT: The following are the average electric rates for Illinois and four of its surrounding bordering states (all are regulated). The rates in these surrounding states underscore the fallacy of the claim:

Illinois:	**8.27 cents p/ kWh**
Iowa	**7.85**
Missouri	**7.94**
Kentucky	**8.19**
Indiana	**8.76**

FACT: **- Illinois' average pre-deregulated rate for 1996: 7.70 cents p/kWh**

- Illinois' average deregulated rate for 2013: 7.99 cents p/kWh

Volatility

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Misleading claim: "There has been no statistically significant difference in retail prices volatility between competitive states and traditional monopoly states."

Once again Dr. O'Connor was very selective on what statistics (percentages) he chose to present and how he defined "volatility" - which failed to give an accurate representation of what is really happening in deregulated states. For example:

- **In one month, from December 2013 to January 2014, Illinois' rates jumped from 7.62 to 8.27 cents per kWh – or a 9% increase. Interestingly, for that same time period the rates in Michigan dropped 6%.** (EIA - Table 5.6.A – Average Retail Price of Electricity by State as of January 2014)

- **Illinois consumer board (joined 10 other states) to request FERC to review historic wholesale energy price spikes.** (Illinois Citizens Utility Board – February 18, 2014)

- **Connecticut, Delaware, Maryland, Pennsylvania and New Jersey have seen triple and quadruple price hikes.** (The Bulletin - 01/16/2014); Newark Star Ledger - 02/23/2014; SNL Financial - 02/26/2014; Press of Atlantic City – 03/22/2014; Philadelphia Inquirer – 03/22/2014)

RELIABILITY

Insuring sufficient electric generation to meet future demand

http://www.eia.gov/forecasts/aeo/MT_electric.cfm

Misleading claim: "No change in reliability under HB 5184."

Misleading claim: "The 14 customer choice states have had a good record of generation investment."

New Generation:

- **EIA forecasts that we will need 340,000 megawatts (MW) of new generation by 2040. Since 2003 only 17,300 MWs has been built (in only 12 states).**
- **Only one deregulated state (Texas) has built a power plant with a capacity of over 400 MW. Even with new generation, Texas still faces serious capacity issues.** (Houston Chronicle – January 3, 2014; Reuters – January 9, 2014; Texas Monthly – March, 2014)

Existing Generation:

- **Exelon announced it may be forced to close 5000 megawatts of generation (three nuclear plants) in Illinois due to deregulated electric markets.** (Crain's Business – March 2, 2014)
- **MISO is projecting a shortfall of 3.1 GW of electricity in Michigan by 2016.** (MISO Adequacy Report – January 31, 2014)
- **Regulatory uncertainty affects capacity decisions.** (EIA Market Trends – 05/02/2013)

Conclusion

Rates: Whatever your concern may be regarding the current state of rates in Michigan, deregulating the electric market is not the answer.

Volatility: Stable, predictable and sustainable rates can be achieved only through a regulatory structure.

Reliability: Electric deregulation does not have the economic drivers to build the base-load generation that will be needed to meet future need. We must never let electricity become a speculative commodity.